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SIPDIS
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MKACZMAREK
NSC FOR DRESTREPO
NSC FOR LROSSELLO
USDOC FOR 4332 MAC/ITA/WH/JLAO
AMEMBASSY BRIDGETOWN PASS TO AMEMBASSY GRENADA
AMEMBASSY OTTAWA PASS TO AMCONSUL QUEBEC
AMEMBASSY BRASILIA PASS TO AMCONSUL RECIFE

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TAGS: [ECON](#) [VE](#) [EIND](#) [EINT](#) [EINV](#) [EMIN](#) [ENRG](#) [ETRD](#)
SUBJECT: GBRV SELLS ALUMINUM TO TRANSNATIONALS INSTEAD OF LOCAL COMPANIES

REF: 09 CARACAS 1595

CLASSIFIED BY: DUDDY, AMBASSADOR, DOS, AMB; REASON: 1.4(B), (D)

¶1. (C) SUMMARY: The Venezuelan government (GBRV) is selling state-produced aluminum to multinational companies and undersupplying local fabricators, according to a private sector aluminum entrepreneur. State-owned aluminum companies Alcasa and Venalum have decreased production following a government-implemented energy rationing program, although the two companies still produce enough aluminum to satisfy local demand. The Basic Industry and Mining Ministry (MIBAM) signed two forward sale aluminum contracts with Glencore International and Noble Resources in 2009, and the GBRV has apparently decided to honor those agreements instead of meeting local demand. According to February 5 press reports, Alcasa Labor Director Henry Arias asked MIBAM to cut its supply agreements with Glencore and Noble in half to supply local fabricators, many of whom have substantially reduced their output due to raw material shortages. In addition to these shortages, local aluminum fabricators face a number of other challenges, including a 100 percent increase in the price of state-produced aluminum, frequent power outages, minimum wage increases, and the cancellation of a line of credit from a government development bank. END SUMMARY.

¶2. (C) On January 20, private sector aluminum entrepreneur Jorge Monch (strictly protect throughout) told EconOff that state-owned aluminum companies Alcasa and Venalum have dramatically cut their supply of aluminum to Venezuelan fabricators. In 2009, Venalum produced 430,000 tons of aluminum and Alcasa produced 110,000 tons, but Monch expected Venalum's annual output to drop by 160,000 tons this year after the company shut down 440 production cells as part of a government-implemented energy rationing program. (NOTE: On February 5, the press reported that Venalum had shut down 360 cells. Aluminum production is highly energy intensive-the price of electricity represents 43 percent of the total cost of production in Venezuela, according to Monch. END NOTE).

¶3. (C) Nevertheless, Monch speculated that the GBRV was using the electricity crisis as an excuse for reducing the aluminum supply to local companies. According to Monch, Alcasa and Venalum still produce enough aluminum to satisfy local demand. The real issue, he said, is that the Basic Industry and Mining Ministry (MIBAM) had signed two large multi-year contracts with

transnational companies and decided to honor those agreements instead of supplying local Venezuelan fabricators. In October 2009, Venalum signed a USD 1.2 billion forward sale contract to supply the Swiss company Glencore International with 360,000 tons of primary aluminum and cylinders over six years, according to press reports; Venalum signed a similar contract with Noble Resources for 50,000 tons. Monch said that MIBAM used the money from these agreements to pay worker salaries and December bonuses instead of reinvesting in Venalum and Alcasa. "The government is slowly liquidating the basic industries," Monch said.

¶4. (SBU) On February 5, the press reported that workers at Alcasa had asked MIBAM to cut its supply agreements with Glencore International and Noble Resources in half in order to increase the aluminum available for Venezuelan companies. The workers made this request based on Decree 3895, published in the Official Gazette in September 2005, under which Alcasa and Venalum must guarantee the aluminum supply for local fabricators. Alcasa Labor Director Henry Arias told the press that both private Venezuelan companies and state-owned fabricating companies have been forced to reduce output because of raw material shortages. According to press reports, the state-owned company Cabelum, which manufactures cables, only receives 600 tons of aluminum per month (t/m) instead of the 2,000 t/m it received previously. Aluminum foil manufacturer Alucasa and Rialca have also been forced to reduce production levels. "We are sending more than 12,000 t/m to Glencore and Noble...which in other words means we are fulfilling agreements with multinational companies at the cost of lowering the supply goals for local

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fabricators," Arias said.

¶5. (C) Monch, who owns the Alucenca aluminum plant in Cagua, said that he previously purchased 500 t/m from Venalum under a contract that expired in December 2009. In January 2010, Venalum representatives told Monch in a telephone conversation that they could only sell him 100 t/m in 2010. Monch said he has been purchasing aluminum from Venalum for over 30 years and that his company would go bankrupt without at least 307 t/m due to the small profit margins in the aluminum business. In a conversation with EconOff on February 10, Monch said that he was hoping to sign an addendum with Venalum to increase the monthly tonnage of his supply contract. (NOTE: Monch told EconOff that he coincidentally bumped into National Assembly Deputy Jose Alborno on a flight from Puerto Ordaz to Caracas. Monch explained the desperate circumstances of his aluminum business to Alborno, who later told Monch that he had discussed the situation with President Chavez on January 19 and that Chavez was going to raise the issue with Basic Industry and Mining Minister Rodolfo Sanz. END NOTE.)

¶6. (C) Monch estimated that there are approximately 75 local aluminum fabricators in Venezuela employing some 7,000 workers. The owners of the other large aluminum fabricators told Monch that they have also had their supply contracts with Venalum cut by 60 to 80 percent. In addition to the supply shortages described above, Monch highlighted other difficulties facing local aluminum fabricators: 1) the price of state-produced aluminum has increased by 100 percent following the devaluation announced on January 8 (from 2.15 bolivars per USD to 4.3 bolivars per USD); 2) frequent power outages, as often as three times a week at Monch's plant in Cagua, have disrupted production and damaged sensitive machinery; 3) on January 15, President Chavez announced two planned minimum wage increases for 2010-10 percent in March and 15 percent in September; 4) the GBRV has cancelled a line of credit for local producers with the government-owned development bank Banfoandes after its recent merger into Banco Bicentenario (Ref A). According to Monch, Banfoandes' former clients have been asked to apply for a new line of credit with Banco Bicentenario, a process that could take up to six months.

17. (C) COMMENT: The apparent decision to honor contracts with Glencore and Noble and sell aluminum to transnational corporations at the risk of bankrupting Venezuelan companies highlights a contradiction in the GBRV's socialist development model: the government claims to support and encourage domestic production but many of its macroeconomic policies have been counterproductive to growth. MIBAM is in a difficult position because it could conceivably face international legal proceedings if it fails to meet its contractual obligations, but the fact that the GBRV used the proceeds from its agreements with Glencore and Noble to pay wages and December bonuses-rather than reinvest in Venalum and Alcasa-is further evidence of both the insolvency and mismanagement that is characteristic of many of the large state-owned companies. END COMMENT.
DUDDY